

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 SAJ-01 SAM-01 BIB-01

ACDA-05 /095 W

----- 048305

R 251538Z JUN 75

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 1598

INFO AMEMBASSY BERN

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSYPRAGUE

AMEMBASSY VIENNA

AMEMBASSY SOFIA

AMEMBASSY WARSAW

C O N F I D E N T I A L MOSCOW 8861

E.O. 11652 XGDS-4

TAGS: ECON, EFIN, UR

SUBJECT: ROCKEFELLER MEETING WITH KOSYGIN: SOVIET INTEREST IN
RUBLE CONVERTIBILITY

REF: A. STATE 147677 B. MOSCOW 7182 (NOTAL)

1. SUMMARY - APPARENT KOSYGIN INTEREST IN ROCKEFELLER SUGGESTION
THAT SOVIETS MOVE TOWARD RUBLE CONVERTIBILITY IS CONSISTENT WITH
TOP LEVEL SOVIET REACTIONS DURING PREVIOUS CONVERSATIONS ON THIS
SUBJECT. USSR'S INTERNATIONAL BANKERS, HOWEVER, HAVE SO FAR
TAKEN MUCH LESS POSITIVE APPROACH TO QUESTION, AND IT SEEMS
LIKELY THAT POSSIBLE UNDESIRABLE SIDE-EFFECTS OF ANY PROPOSED MOVE
TOWARD CONVERTIBILITY WILL CAUSE LEADERSHIP TO LEAVE QUESTION IN
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ABEYANCE FOR PRESENT AND IMMEDIATE FUTURE. END SUMMARY.

2. POSSIBILITY THAT USSR WILL FIND IT NECESSARY AT SOME FUTURE BUT UNSPECIFIED DATE TO MAKE RUBLE CONVERTIBLE WAS IMPLICIT DURING CONVERSATIONS BETWEEN KOSYGIN AND STATE BANK CHAIRMAN SVESHNIKOV ON SOVIET SIDE AND FEDERAL RESERVE CHAIRMAN BURNS DURING LATTER'S MOSCOW VISIT IN MAY 1974, AND SUBJECT HAS ARISEN OCCASIONALLY IN DISCUSSIONS BETWEEN EMBOFFS AND FOREIGN TRADE BANK OFFICIALS, IN CONVERSATIONS WITH DEPTUY FOREIGN TRADE MINISTER ALKHIMOV AND ALSO IN TALKS WITH DEPUTY CHAIRMAN KOBAK OF CEMA'S INTERNATIONAL INVESTMENT BANK (IIB).

3. BOTH KOSYGIN AND SVESHNIKOV HAVE APPEARED TO FIND IDEA OF RUBLE CONVERTIBILITY WORTH CONSIDERATION. FOREIGN TRADE BANK OFFICIALS HAVE CONSISTENTLY REJECTED ANY SUCH POSSIBILITY, AND IN FACT HAVE APPEARED TO BRING IT UP IN ORDER TO KNOCK IT DOWN ON GROUNDS OF IMPRACTICALITY. ALKHIMOV HAS GENERALLY COMMENTED THAT TIME FOR SERIOUS CONSIDERATION OF RUBLE CONVERTIBILITY IS NOT YET RIPE, AND KOBAK HAS SAID THAT (1) SOVIETS HAVE NOT YET RECOGNIZED THAT THEY WILL PROVE UNABLE TO PLAY LEADING ROLE THEY ENVISION FOR THEMSELVES IN INTERNATIONAL FINANCIAL AFFAIRS UNTIL THEY TAKE PLUNGE INTO CONVERTIBILITY, AND (2) HE AND NON-SOVIET IIB COLLEAGUES (KOBAK IS POLISH) HAVE BEEN TRYING VAINLY TO CONVINCE SOVIETS THAT BEST WAY TO EASE INEVITABLE EVENTUAL SHOCK WHEN RUBLE CONVERTIBILIY BECOMES INESCAPABLE WOULD BE THROUGH MAKING TRANSFERABLE RUBLE (ACCOUNTING UNIT EMPLOYED IN TRANS-ACTIONS AMONG CEMA MEMBERS) CONVERTIBLE.

4. DURING MEETING WITH FEDERAL RESERVE CHAIRMAN BURNS MAY 7, 1974, USSR STATE BANK CHAIRMAN RAISED CONVERTIBILITY QUESTION ALLUDING TO BURNS' EARLIER CONVERSATION WITH KOSYGIN. SVESHNIKOV DESCRIBED CHIEF US ADVANTAGE OF DOLLAR CONVERTIBILITY AS "LARGE FLOAT - EQUIVALENT TO A LARGE CREDIT AND REPRESENTED BY THE DOLLARS AND EURODOLLARS LOCATED AT ANY ONE TIME IN FOREIGN MARKETS, PRINCIPALLY IN THE HANDS OF FOREIGN CENTRAL BANKS". WHILE SVESHNIKOV DID NOT SPECIFICALLY INTIMATE THAT USSR HAD ANY INTENTION OF TAKING STEPS TOWARD CONVERTIBILITY, HE NOTED SOVIETS HAD BEEN STUDYING BANK FOR INTERNATION SETTLEMENTS (BIS) AND IMPLIED SOVIET INTEREST IN CLOSER COOPERATION WITH BIS IN FUTURE. SVESHNIKOV WAS PARTICULARLY ATTENTIVE TO BURNS' COMMENT THAT CONVERTIBILITY FOR EXTERNAL ACCOUNTS DID NOT NECESSARILY

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IMPLY INERNAL (I.E. DOMESTIC) CONVERTIBILITY.

5. WHILE FOREIGN TRADE BANK CHAIRMAN IVANOV HAS NOT EXPRESSED HIS VIEWS ON CONVERTIBILITY TO EMBOFFS, HIS DEPUTIES AL'BERT R. MAKEYEV AND NIKOLAY V. NIKITKIN HAVE TOUCHED UPON SUBJECT IN CONVERSATION ON SEVERL OCCASIONS, CHARACTERIZING IDEA OF CONVERTIBILITY AS UNNECESSARY AND/OR IMPRACTICAL. THEY APPARENTLY TEND TO SEE CONVERTIBILITY AS ONE ELEMENT OF POSSIBLE BROADER

LINKAGE OF SOVIET BANKING ACTIVITIES TO WESTERN MONETARY SYSTEM, INCLUDING BIS AND PERHAPS IMF/WORLD BANK. POTENTIAL COMPLICATIONS SUCH LINKAGE WOULD CREATE IN MANAGEMENT OF SOVIET TRANSFER PAYMENTS TO DEVELOPING COUNTRIES, IN ADDITION TO ADMINISTRATIVE AND MONEY COSTS OF SUSTAINING VALUE OF A CONVERTIBLE RUBLE ON INTERNATIONAL FINANCIAL MARKETS, CLEARLY BOTHER THE FOREIGN TRADE BANK.

6. IDEA OF RUBLE CONVERTIBILITY HAS RISEN PERIPHERALLY IN SEVERAL CONVERSATIONS WITH DEPUTY MINISTER ALKHIMOV. HE HAS CONSISTENTLY TREATED CONVERTIBILITY AS SOMETHING TO BE KEPT UNDER STUDY AND PERHAPS TO BE TREATED IN EARNEST AT SOME POINT IN FURTHER BUT NOT TO BE VIEWED SERIOUSLY AT PRESENT.

7. SEVERAL TIMES OVER PAST TWO YEARS DEPUTY CHAIRMAN KOBAK OF IIB HAS COMMENTED TO EMBOFFS ON RUBLE CONVERTIBILITY IN CONTEXT OF HIS PERSONAL CRUSADE TO WORK OUT AT LEAST LIMITED CONVERTIBILITY FOR THE TRANSFERRABLE RUBLE. ACCORDING TO KOBAK, SUCH A STEP WOULD BENEFIT ALL CONCERNED - THE CEMA ORGANIZATION, ITS INDIVIDUAL MEMBERS AND WESTERN TRADING PARTNERS. SOVIET UNREADINESS THUS FAR TO UNDERTAKE SERIOUS DISCUSSION OF PROPOSAL WITH IIB BOARD KOBAK SEES AS REFLECTING BOTH (1) OF SOVIET RELUCTANCE TO FACE IMPLICATIONS OF SETTLED POLICY OF ENHANCING CEMA'S INTERNATIONAL STANDING AND (2) OF SOVIET REFUSAL TO RECOGNIZE THAT WHAT AMOUNTS TO BARTER TRADE IN GOLD AS WELL AS OTHER COMMODITIES IS NO LONGER AN ADEQUATE MECHANISM FOR SETTLEING SOVIET TRADING ACCOUNTS WITH REST OF THE WORLD. WHILE REMAINING HOPEFUL, KOBAK BELIEVES IT UNLIKELY THAT SOVIETS WILL GIVE SERIOUS CONSIDERATION TO RUBLE CONVERTIBILITY UNTIL SUCH TIME AS EXISTING BARTER ARRANGEMENTS BECOME OBVIOUS MAJOR STUMBLING BLOCK TO FURTHER EXPANSION OF SOVIET COMMERCIAL TIES AND BEGIN TO HAMPER ATTAINMENT OF BENEFITS OF MUCH-VAUNTED "INTERNATIONAL DIVISION OF LABOR".

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8. DURING STANFORD RESEARCH INSTITUTE-IMEMO/USA INSTITUTE CONFERENCE LAST SEPTEMBER, A LEADING IMEMO ECONOMIST (DR. BEL'CHUK) TOLD EMBOFF THAT MAIN SOVIET PREREQUISITE FOR ALLOWING RUBLE CONVERTIBILITY WOULD BE TO ASSURE ITS STABILITY AMONG BUFFETING WINDS OF INTERNATIONAL FINANCIAL MARKETS. THIS IN TURN, ACCORDING TO BEL'CHUK, PRESUPPOSES THAT SOVIET UNION'S EXPORT CAPABILITY WILL BECOME MUCH MORE BALANCED -- AWAY FROM ITS TRADITIONAL PROFILE AS A RAW AND SEMI-FINISHED MATERIALS EXPORTER TO ONE ENCOMPASSING MANUFACTURED ITEMS WHICH WOULD ENJOY WORLD-WIDE DEMAND ON BASIS OF QUALITY AND DURABILITY RATHER THAN SIMPLY LOW PRICE.

9. COMMENT: IN EMBASSY'S VIEW, DESPITE COURTEOUS AND PROBABLY SINCERE EXPRESSIONS OF INTEREST IN AT LEAST EXTERNAL RUBLE CONVERTIBILITY ON THE PART OF SOVIET LEADERS, UNWILLINGNESS TO

EXPOSE RUBLE TO HAZARDS OF INTERNATIONAL CURRENCY MARKETS (AND
THUS, IN SOVIET EYES, TO STAKE VALUE OF PRESTIGIOUS NATIONAL ASSET
ON GOOD FAITH OF UNPREDICTABLE AND POSSIBLY IRRESPONSIBLE THIRD
PARTIES OUTSIDE SOVIET CONTROL) WILL INHIBIT SIGNIFICANT SOVIET
MOVE TOWARD RUBLE CONVERTIBILITY AT LEAST DURING TENURE OF CURRENT
LEADERSHIP.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETINGS, BANKS, CONVERTIBLE FOREIGN EXCHANGE, GOVERNMENT REACTIONS, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MOSCOW08861
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X4
Errors: N/A
Film Number: D750221-0596
From: MOSCOW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750617/aaaaapop.tel
Line Count: 176
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 147677, 75 MOSCOW 7182
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 10 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 APR 2003 by ShawDG>; APPROVED <22 SEP 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ROCKEFELLER MEETING WITH KOSYGIN: SOVIET INTEREST IN RUBLE CONVERTIBILITY
TAGS: ECON, EFIN, UR, US, (ROCKEFELLER, DAVID), (KOSYGIN, ALEKSEY NIKOLAYEVICH)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006